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Gambling Taxation in Today's Russia: Principles, Practices and Actual Figures

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Abstract:

The article is devoted to today's situation and prospects for the development of gambling taxation in the country. The gambling industry is continually developed. Currently, this type of entrepreneurial activities can be found almost throughout the Russian Federation. But the problem of gambling industry is associated, to a large extent, with the fact that it is rather difficult to control the income and expense of bookmakers, owners of casinos and slot machines.

Insufficient transparency of gambling industry leads to new restrictions or prohibitions by the state, instead of implementing an effective taxation system. As the objects for the study, the authors selected the main elements of the tax on gambling.

In this article the dynamics of the number of taxpayers, subjects of taxation and amount of budget income by taxing the gambling industry over time is analysed. As a result of the study the problems of gambling taxation are defined and their possible solutions are proposed.

Keywords: *Gambling industry, gambling zones, taxation, subject of taxation, taxation base, tax rate, taxable period, budget revenue.*

JEL Classification Codes: *H71.*

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1. Introduction

With the emergence and development of market economy, some types of business activity were made legal in Russia among them the gambling industry. Currently, gambling is an exuberantly flourishing branch of the recreational sector. Development and implementation of a more flexible and democratic approach to solving the problem of gambling regulation could lead to a sort of compromise between the state and gambling operators that might be mutually beneficial. The gambling tax is an income/property tax, and at the same time it is a variety of the imputed tax on certain business activities (in this case, on gambling operations, i.e. on using gaming tables, slot machines, casinos, betting shops and bookmaker shops, etc., for profit making). The gambling tax is one of regional taxes the revenues from which go directly to the budget of the Russian region where it is imposed. For the moment, the country's gambling taxation system has already gone through some vital changes but cannot be viewed as perfect.

In the 2000s, the Russian government embarked on the course of fundamental reforms and development of the system of state control and regulation of gambling. At the first stage of the reform, the Federal Law No. 244-FZ, of December 29, 2006 «*On state regulation of organisation and management of gambling operation, and on amending individual legislative acts of the Russian Federation*» was elaborated and later enacted (Federal Law No. 244-FZ, of December 29, 2006). As per this Federal Law, state control implies four key lines of action:

- 1) setting up of procedures, arrangements and restrictions pertaining to organisation and operation of gambling. In addition to the requirements set out for gambling organisers, requirements are also specified for gambling facilities and for visitors;
- 2) geographical restriction of gambling industry by selecting designated gambling zones, or areas where this business is only permitted;
- 3) licences and permits issued by authorised governmental bodies;
- 4) state control over the industry, according to the Law, aimed, first of all, at revealing, banning and suppressing business activities carried out with the violation of the Law.

The purpose of this work is to assess the current situation and prospects for the development of gambling in the country. To achieve this goal and solve the identified scientific problems, the work will be structured in a certain way.

2. Theoretical, Empirical, and Methodological Grounds of the Research

Let us now consider the key components of the gambling tax and its computation procedure, as per Chapter 29 of the Tax Code of the Russian Federation (hereinafter — TC RF) (Tax Code of the Russian Federation). Taxpayer — a legal entity that carries out its business activities in the gambling sector (Art. 365 TC RF).

Subjects of taxation in gambling industry are (Art. 366 TC RF): gaming tables; slot machines; totalizator processing centres; bookmaker processing centres; totalizator betting shops; bookmaker betting shops.

Gaming table is a piece of gaming equipment with one or more playing layouts. It is used for gambling either between gamblers only or with participation of one of the gaming house's employees, i.e., the banker.

Slot machine — a piece of gaming equipment (mechanical, electrical or electronic) that is used for individual wagering with payoffs. The payoff is determined randomly by a device inside the machine, with no involvement of the gambling organiser or his/her employees.

Bookmaker processing centre — an area of the gambling facility where bets are accepted and registered. This is also the place where betting results are recorded and payoff sums are calculated. The processing centre is also a source of information on bets accepted and amounts won for betting shops of the same bookmaker.

Totalizator processing centre is an area of the gambling facility where bets are accepted and registered, betting results are recorded and payoffs calculated. The processing centre is also a source of information on bets accepted and amounts won for betting shops of the same totalizator.

Bookmaker betting shop is a stand-alone part of the gambling establishment where the bookmaker makes bets with players and provides information on bets accepted and payoffs paid and unpaid to the processing centre.

Totalizator betting shop is a stand-alone part of the gambling establishment where the totalizator organiser arranges bets between players, and provides information on bets accepted and payoffs paid and unpaid to the processing centre. Each subject of taxation is to be registered with the local tax authority not less than 2 working days before its installation (opening).

Gambling equipment or betting shop registration is conducted by the tax authority on application from the taxpayer, with mandatory issuing of a registration certificate for the subject(s) of taxation.

Any change in the number of subjects of taxation also has to be registered with tax authorities not less than 2 working days before their installation or withdrawal. Gambling equipment is deemed registered or withdrawn as of the date of the taxpayer's submitting his/her application to the tax authority pertaining to registration of new subjects of taxation or registration of a change (reduction) in their number.

Tax rates are established in accordance with the legislation of the Russia's constituent entities for each subject of taxation within the limits provided for in the Tax Code of the Russian Federation (Art. 369 TC RF). In the constituent entities where gambling tax rates have not been defined yet, minimum tax rates are applied. The tax base is determined individually for each subject of taxation as the total number of the subjects. Gambling tax computation procedure is specified in Art. 370 TC RF. The tax amount is the product of the tax base and the tax rate specified for each subject of taxation. The same article provides for the computation of tax on gaming tables with two and more playing layouts. If a gaming table has more than one layout, than the tax rate is multiplied by the number of such playing layouts. The TC RF also specifies a procedure for applying different tax rates depending on the date of installation or withdrawal of a subject of taxation as shown in Table 1.

Table 1. Tax rates in the Russian Federation on the change in the number of subjects of taxation (Tax Code, 1998)

Installation of a new subject of taxation (par. 3, Art. 370 TC RF)	
before 15 th of the month	after 15 th of the month
Standard tax rate applied	½ of standard tax rate applied
Withdrawal of an old subject of taxation (par. 4, Art. 370 TC RF)	
before 15 th of the month	after 15 th of the month
½ of standard tax rate applied	Standard tax rate applied

The taxable period specified for gambling taxation is a calendar month (Art. 368 TC RF). With the aim of evaluating and analysing the current gambling taxation in Russia, the accounts and records of Russian tax authorities publicly available on the web-site of the Federal Tax Service of the Russian Federation were analysed. The goals of our study included:

- 1) analysis of the number of taxpayers (legal entities) that carry out their business activities in gambling;
- 2) identification of the taxpayer structure by constituent entity;
- 3) assessment of the dynamics of subjects of taxation;
- 4) analysis of the budget revenue from gambling taxation in terms of subjects of taxation and constituent entities of the Russian Federation.

For this study, the methods of comparing, summarizing, grouping, and generalized indexes were applied.

3. Results

The overall number of taxpayers (legal entities) carrying out business activities in the gambling sector and having filed income tax returns for the Russian Federation in 2013–2015 is shown in Table 2.

Table 2. *The number of taxpayers paying tax on gambling (NALOG, 2017)*

Parameter	2013	2014	2015	Growth rate (2015 to 2013), items	Growth rate (2015 to 2013), %
Number of taxpayers	39	696	728	689	1866.67

Gambling taxpayers structure (legal entities operating in the gambling sector and having filed income tax returns in 2013–2015) is shown in Table 3.

Table 3. *The number of taxpayers paying tax on gambling by constituent entities of the Russian Federation (NALOG, 2017)*

Constituent entity of the Russian Federation	2013	2014	2015	Growth rate (2015 to 2013), items	Growth rate (2015 to 2013), %	Share, % (2015)
Nationwide	39	696	728	689	1 866.67	100.00
Central Federal District (CFD)	13	184	198	185	1 523.08	27.20
Northwestern Federal District (NWFD)	15	76	79	64	526.67	10.85
North Caucasian Federal District (NCFD)	1	42	45	44	4 500.00	6.18
Southern Federal District (SFD)	4	74	74	70	1 850.00	10.16
Volga Federal District (VFD)	0	149	146	146	97.99	20.05
Ural Federal District (UFD)	6	54	56	50	933.33	7.69
Siberian Federal District (SFD)	0	80	87	87	108.75	11.95
Far Eastern Federal	0	37	43	43	116.22	5.91

District (FEFD)						
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It follows from the data shown in Table 3 that the largest increase in the number of taxpayers was observed in the Central Federal District — by 185 companies, whereas the smallest increase was observed in the Volga Federal District, which lost 3 items in 2015 as compared to 2014. The largest share of taxable gambling businesses is accounted for the Central Federal District (27.2%), the smallest one — for the Far Eastern Federal District (5.91%). Another important evaluation category is the dynamics of subjects of taxation in gambling industry (Table 4).

Table 4. The number of subjects of taxation in gambling industry (NALOG, 2017)

Type of the subject of taxation in gambling industry	2013	2014	2015	Growth rate (2015 to 2013), items	Growth rate (2015 to 2013), %	Share, % (2015)
Gaming tables	33	49	70	37	212.12	1.27
Slot machines	539	1 046	1 397	858	259.18	25.26
Totalizator betting shops	9	145	93	84	1 033.33	1.68
Bookmaker betting shops	34	4 013	3 971	3 937	11 679.41	71.80

The data represented attest to the following facts:

- the most significant growth rate (3937 items) reflects the increase in the number of bookmaker betting shops;
- the number of bookmaker betting shops increased in the review period by a factor of 116;
- the least increase in subjects of taxation is observed in gaming tables — 37 items; on the other hand, their number rose by a factor of 2.1;
- the largest share in the structure of subjects of taxation in 2015 was accounted for by bookmaker betting shops (71.8%), the smallest — by gaming tables (1.27%).

Let us now specify the number of subjects of taxation in gambling industry by constituent entity of the Russian Federation. For gaming tables, the largest gain is observed in the Southern Federal District — 26 items, their number grew by a factor of 1.7, their share being 84.29%; the least increment is characteristic of the Siberian Federal District — only 11 items, for the year 2015 their share was 15.71%. For slot

machines, the most conspicuous growth took place in the Southern Federal District, 808 items, their number rose by a factor of 2.5 and their share was 96.42%; the opposite trend is observed in the Siberian Federal District where this type of subjects of taxation first appeared in 2015 with the share of 3.58%. The number of totalizator betting shops rose most rapidly in the Central Federal District, 46 items, which totals to a 12.5% increase with the share of 53.76% in 2015; in the Far Eastern Federal District in the same year, no such subjects of taxation were found at all. The largest number of bookmaker betting shops were set up in the Central Federal District, 1447 items, with a 132% increase and the share of 36.72%; the worst figures are observed in the Far Eastern Federal District, 76 items.

Now let us present the tax amounts charged on gambling nationwide for the period of 2013–2015 in terms of subjects of taxation (Table 5).

Table 5. *Gambling tax charged by subjects of taxation (NALOG, 2017)*

Subject of taxation type	2013	2014	2015	Increment rate (2015 to 2013), thousand roubles	Growth rate (2015 to 2013), %	Share, % (2015)
Gaming tables	48 653	61 813	80 438	31 785	165.33	16.27
Slot machines	40 488	76 095	100 361	59 873	247.88	20.29
Totalizator betting shops	9 171	13 021	10 449	1 278	113.94	2.11
Bookmaker betting shops	19 034	275 402	303 269	284 235	1 593.30	61.33

As can be seen from Table 5, the highest increment of tax amounts charged on gambling businesses is observed for bookmaker betting shops, 284 235 000 roubles, the lowest, for totalizator betting shops.

Now we will analyse the tax amounts charged on gambling in 2013–2015 in terms of subjects of taxation and Russia's constituent entities: for gaming tables, the largest increase in charged tax took place in the Southern Federal District; for slot machines, the charged tax amounts grew most in the same constituent entity, by 99 072 000 roubles, a less impressive increase is seen in the Siberian Federal District; for totalizator betting shops, the largest increment took place in the Volga Federal District, by 3 248 000 roubles, the smallest, in the Central Federal District where the tax amount dropped by 1 956 000 roubles; for bookmaker betting shops, the largest growth of tax charged, by 96 819 000 roubles, was in the Central Federal District where it rose by a factor of 12.36 with the share of 34.73%; a smaller

increase is observed in the Far Eastern Federal District. Summing up the findings it can be said that designation of special 'gambling zones' in the Russian Federation resulted in a loss of tax revenue for respective constituent entities; this also has led to a reduction in their share in the consolidated budget of the country and to a lesser independence of regional budgets.

Creation of these designated zones for gambling activities, consolidation of businesses in this sector did not solve the problem of illegal enterprises. In 2015, amendments to the Criminal Code of the Russian Federation took effect. They increase punishments for illegal gambling. Now people can be prosecuted on both criminal and administrative charges for the mere fact of conducting gambling regardless of the amounts gained as income. But the state's combat against illegal casinos seems to be rather ineffective, as of today. We share the opinion that to make gambling taxation more efficient, the following measures have to be taken:

- 1) re-definition of terms and notions used in gambling and its taxation;
- 2) revision of the subjects of taxation taxonomy and formulating it, for instance, as income earned from gambling operations and income from the realized gain;
- 3) enhancement of control over cash registers used by gambling houses in order to make their operations more transparent.

4. Conclusions and recommendations

In view of the above, the observed trends in gambling taxation suggest that the system is in an urgent need for improvement. The key problem of gambling taxation, i.e., the fact that tax revenues are directly related to the legality of such businesses, in the long term requires legalisation of gambling operators by issuing licenses with the purpose of ensuring more tax receipts to the budget, further development of designated gambling zones and special control over illegal gambling enterprises.

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